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ABSTRACT

The likely impact of the new mandatory retirement age of 70 on the future financial situation of the University of the District of Columbia was considered. In order to simulate the policy's effect on the 1979-80 university budget and retirement policies, four alternative plans were developed utilizing three groups of personnel (faculty, administrative, and general schedule employees). Assumptions reflected in the plans are: (1) options to replace retiring personnel; (2) ranks, salaries, and compensations for new replacements; and (3) supplementary benefits for early retirees. It was found that although only 36 employees (2.6 percent of the total university staff) were of retiring age, the cost savings approximated about $187,000 to $1.5 million for 1979-80. (Author/SW)

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ED188541

IMPACT OF THE NEW RETIREMENT AGE OF 70 ON THE UNIVERSITY OF THE DISTRICT OF COLUMBIA

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ABSTRACT

Concerns pertinent to the assessment of the relative impact of the new mandatory retirement age of 70 are addressed in this paper. To simulate its effects on UDC's 1979-80 budget and employment policies related to retirement, four alternative plans were developed utilizing three groups of employees (i.e., faculty, administrative staff and GS-employees). Assumptions reflected in the plans are replacement options due to retirement; ranks, salaries and compensation of new hires; and supplementary benefits compensating length of employees' service.

The study indicates that although only 36 employees (2.6% of UDC's total staff) are of retirable age, the cost savings approximate about 187 thousand dollars to almost 1.5 million dollars for 1979-80.

Impact of the New Retirement Age of 70 on the University of the District of Columbia

In July 1978, the Office of the President requested the Office of Institutional Research (OIR) to examine the impact that the new mandatory retirement legislation is likely to have on the University in terms of its policies, employees, and budgetary factors during the Academic Year 1979-80. Furthermore, the project is being undertaken within the context of UDC's efforts to maintain a consolidated group of faculty and other personnel that should be best qualified in meeting the needs and interests of its students.

In April 1978, Congress amended the "Age Discrimination in Employment Act of 1976" (ADEA) to extend the age group of employees who are protected by the law. The new legislation, Public Law 95-256 -- "Age Discrimination of Employment Act Amendments of 1978", raises the minimum age for involuntary retirement from 65 to 70. This law becomes effective January 1979; however, colleges and universities are an exception to the statute for the next three and a half years. They may continue to retire their tenured faculty members at age 65 until mid-1982. Section 12, "Regulation (d) of the law states:

> 12(d) "Nothing in this Act shall be construed to prohibit compulsory retirement of any employee who has attained 65 years of age but not 70 years of age, and who is serving under a contract of unlimited tenure (or similar arrangement providing for unlimited tenure) at an institution of higher education (as defined by section 1201 (a) of the Higher Education Act of 1965)."

Repeal, effective date. 29 USC 631.

(1) Section 12(d) of such Act, as amended by subsection (a) of this section, is repealed on July 1, 1982.

Recognizing the fact that UDC employs three other types of personnel (i.e., administrative, general schedule and wage-grade) besides its teaching staff, sections of the 1978 Employment Act parti-

cularly addresses these staff and are quoted below.

> 12(c) (1) "Nothing in this Act shall be construed to prohibit compulsory retirement of any employee who has attained 65 years of age but not 70 years of age, and who, for the 2-year period immediately before retirement, is employed in a bona fide executive or a high policymaking position, if such employee is entitled to an immediate nonforfeitable annual retirement benefit from a pension, profit-sharing, savings, or deferred compensation plan, or any combination of such plans, of the employer of such employee, which equals, in the aggregate, at least $27,000."

Effective date. 29 USC 631 note. Ante, p. 189. Effective date.

(b) (1) Sections 12 (a), 12 (c), and 12 (d) of the Age Discrimination in Employment Act of 1967, as amended by subsection (a) of this section, shall take effect on January 1, 1979.

UDC is therefore expected to implement the provisions relevant to the non-faculty personnel by the first day of the calendar year 1979.

The computerized UDC Personnel File for the 1977-78 Spring term at each campus became the primary framework for identifying the group of retirable age. The search was limited to all full-time staff members whose positions were paid from appropriated funds as of Spring, 1978. To determine what effects the legislation will have on UDC, these four groups of employees who are approaching the "normal retirement age" of 65 years and over were identified.

The record consists of 77 people who will be 60 years and over as well as a smaller group of 36 staff members approaching 65 years and over by Fall 1979-80. Data extracted on each staff member were: sex, faculty rank/occupational title, annual salary, departmental affiliation, and date of entry at predecessor institutions. Any information missing from the file had to be obtained by OIR from the Personnel Office.

Board resolutions on retirement utilized by the earlier institutions, publications on the Federal Civil Service Retirement Law and bulletins circulated by Teacher's Insurance and Annuity Association/College Retirement Equities Fund (TIAA/CREF) were examined to provide a conceptual framework for the study.

Almost 9 out of 10 UDC personnel (89%) classified as retirable (65 years and over)were reported as either faculty or administrators. Retirement plans for this set of educational employees were contracted with the TIAA/CREF organizations by the governing boards of FCC, DCTC and WTI. Hence, the primary focus of this paper will converge on the opinions of TIAA/CREF and their participating institutions.

Various professional associations such as the American Association of University Professors (AAUP), the National Association of College and University Business Officers (NACUBO) and the TIAA-CREF have investigated the latent significance of the revised retirement act. These studies tend to be concerned with:

1) The inability of institutions to hire and promote young scholars, minorities and women while controlling growth of annual budgets and size of faculty membership.

2) The problem of catering to the changing academic interests of students and labor market needs as well as maintaining the tenured and higher-salaried senior faculty members whose disciplines may no longer be in demand.

3) The reduction in social security income benefits and medicare coverage because of continued employment after age 65.

4) The blending of factors that should make the retirement income sufficiently attractive to the targeted group.

5) Underscoring the significance of tax-deferred annuity plans long before the normal retirement age.

6) The organization of a pre-retirement counseling program to assist people in defining possible alternatives, forming favorable attitudes toward retirement and dispelling anxiety about the future.

7) Retaining age 65 as the "normal age of retirement" so that contributions and benefits related to the retirement system can be designed accordingly, while the option of extending employment rests with the employee and not with the employer.

8) Staff planning that should be responsive to employee and employer budgetary needs as well as to promote institutional and academic quality.

9) Whether or not early retirement supplementary benefits should be extended to all retirable staff or only to a selected few.

10) The duration of a program of supplementary benefits to early retirees as part of an institution's retirement system.

The Federal Service System has at various times drawn the attention of its employees to the use of an "early out" retirement plan. The "Discontinued Service Retirement" program allows staff members to retire on an immediate annuity sooner than they would be able to under the usual "Optional Retirement" provisions.

A recent OIR study on local universities indicated that 57% have already formulated an "early out" retirement plan for faculty and administrative staff. See the Appendix for details.

Another OIR survey on "Selected Exemplar Urban Institutions" supported a similar finding. About 79% of the 14 institutions have designed "early out" plans to encourage the older staff members to retire as presented in the Appendix.

Contemporary studies on the probable effects of the new retirement legislation have identified alternative schemes of responding to it.

In the aggregate, there seems to be a mixed reaction to the value of extending the freedom of choice to work longer than the earlier practice. Proponents of the "normal retirement age" of 65 advocates the development of long-range staff systems, pre-retirement counseling programs and "early out" retirement plans to ensure healthy transition of senior scholars as well as the maintenance of quality educational programs for all. Among those who rejoiced about the opportunity for extended time to work, they seem to recommend that the major economic effects on both individuals and institutions should be minimized accordingly. Some of the plans developed for "early out" retirement by a few institutions have yet to demonstrate the cost savings realized without taxing the early retiring staff.

Within the framework of budgetary retrenchment, the initial phase of a UDC consolidated academic program and a personnel system that is currently being revised, this study attempts to simulate factors that might reduce budgetary inadequacies while enhancing the quality of UDC's academic programs. For this reason, four simulation models were tested to assess their impact on the budget of the academic year 1979-80.

Analytical Approach

To expedite the simulation of relevant factors to each special set of personnel, this section is subdivided into three parts. Part I describes the plans devised to study faculty members; Part II presents those for administrators; and Part III deals with the interests of General Schedule (GS) and Wage-Grade (WG) employees.

Part I - Faculty: A search of the faculty file identified only 27 or 4% of all full-time faculty to be approaching the normal retirement age of 65 years.[1] To simulate the possible budgetary effects of retiring the group, the criteria for retirement eligibility and assumptions related to alternative plans are presented in Chart A-1.

Plans A, B, C and D display the selected characteristics that are simulated to compare the cost for retaining the retirable group vis-a-vis the replacement group. Plan A postulates the total compensation of the retiring group under the assumption that all were to continue teaching by Fall 1979-80 (see Chart A-2). The estimated total compensation was derived by aggregating the two-year adjustments made on the 1977-78 salaries received by incumbent faculty to reflect total step increases within grade as well as 7% annual inflationary effects on living conditions.[2]

Fringe benefits paid by UDC such as social security, medical insurance, retirement insurance, accumulated annual leave were added to the annual salary which represent the total compensation. To estimate total annual compensation for incumbent faculty, the following formula was used:

$$TCI = AS + YB.$$

---

[1]Retirement to become effective at the end of the academic year in which the age is attained.

[2]UDC, "Internal Budget Call", FY 1980.

Chart A-1: Criteria and Assumptions in Proposed Plans for Retirement, UDC, 1979-80

A. Retirement Criteria for FCC, WTI & DCTC:
- Mandatory retirement at age 65 years[a] and voluntary retirement at age 60 years[b].

B. Assumptions:

Incumbent Retirable

- School affiliation based on UDC consolidated academic programs of Fall '78-79.
- Faculty rank same as in 1977-78.
- Annual salary based on the October 1, 1977 schedule -
  - 1978-79 salary
    a) Adjusted by providing one step within grade increase for those who were not yet at the end of the grade scale plus 7% cost-of-living increases.
    b) For faculty whose salaries were at the end of the grade scale no grade step provided but were adjusted for 7% cost-of-living increases.
  - 1979-80 salary
    a) A second adjustment is made with one step within grade increase for those not at the end of the grade scale plus 7% cost-of-living increases.
    b) A second adjustment is made with no within grade increase for faculty at the end of grade scale but added 7% cost of-living increase.
- Fringe benefits[d] paid by D.C. government held constant and same set as those of AY '77-78.
- Years of service includes AY '78-79.
- Same number of appropriated full-time positions as in AY '77-78.

New, Replacement

- School affiliation same as retirees.
- Faculty rank assumed[c] to be of same level as the retiree and that the new UDC personnel system requirements for new employees are not completely different from the old provisions.
- Annual salary based on the October 1, 1977 schedule -
  - 1978-79 salary - Same grade as the retiree but starts at step 1 plus 7% cost-of-living increase.
  - 1979-80 salary - Same grade as the retiree with a second 7% cost-of-living increase.
- Fringe benefits same as those of retirees.
- Years of Service - None
- Same number of appropriated full-time positions as in AY '77-78.

[a]About 82% of all participating institutions in the TIAA/CREF plans consider 65 years as the normal retirement age. See TIAA-CREF College and University Retirement Plan Provisions 1977, Table D, page IX.

[b]Sources: Board of Higher Education Resolution #77-4, DCTC and FCC, November 26, 1973; Policies Washington Technical Institute by the Board of Trustees, WTI 1968.

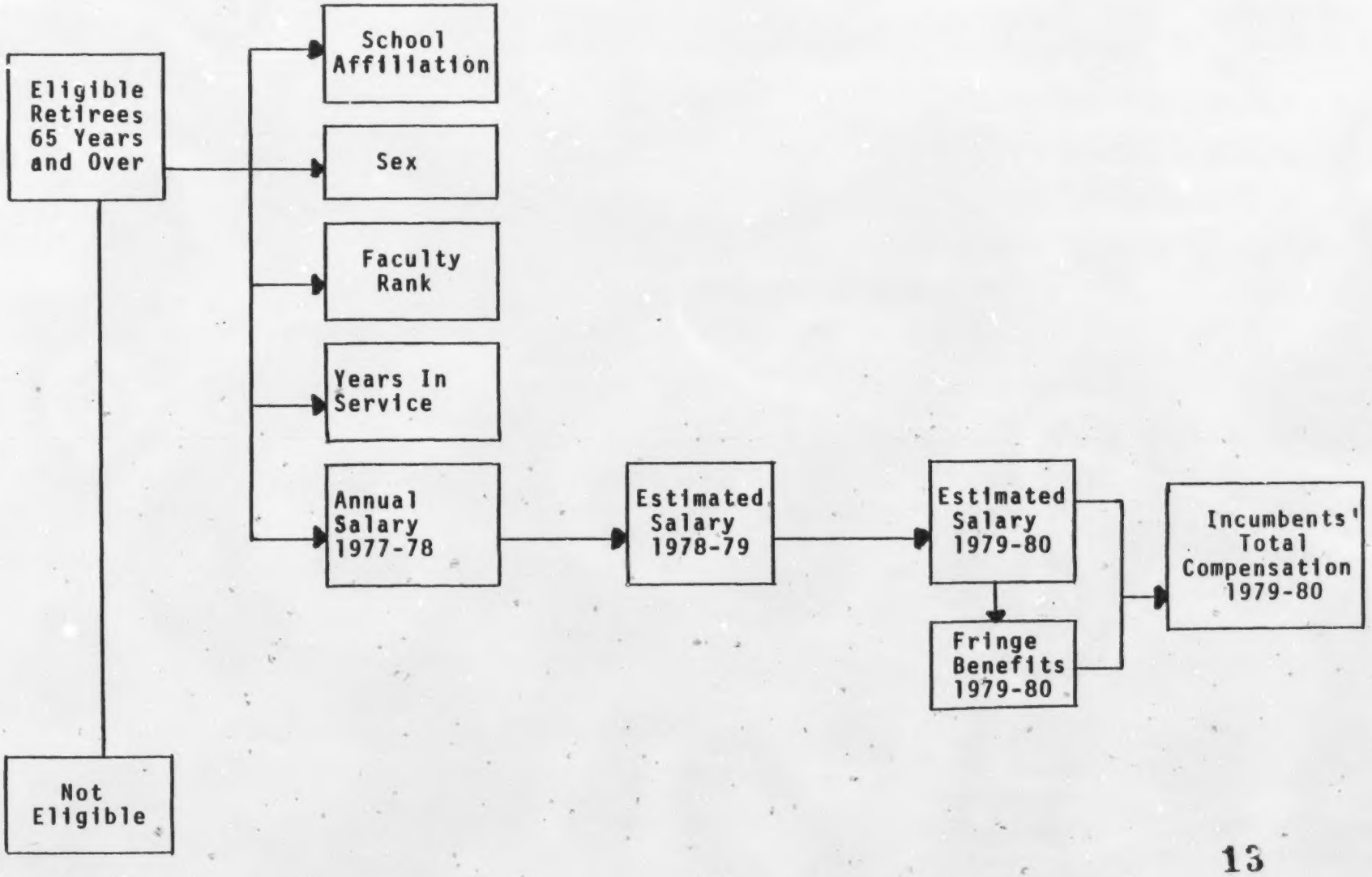
[c]Accrediting professional associations usually require departments to maintain a minimum mixture of faculty by rank as quoted by Mrs. O. Mervene Couch, Asso. Provost, UDC, July 28, 1978.

[d]Fringe benefits include those paid fully by the D.C. government such as social security, retirement annuity, accumulated annual leave and medical insurance. For Van Ness campus employees only, an additional amount is paid for 10% of unused sick leave. See Appendix for specific amounts paid under each benefit.

OIR/8.11.78

Chart A-2: Estimated Compensation of Incumbent Faculty of Retirable Age, UDC, Fall 1979 - 80

Plan A (Incumbent Faculty)



OIR/8.11.78

Where: TCI = Total incumbents'compensation, 1979-80.

AS = Adjusted annual salary for 1979-80 derived from 1977-78 salary schedule.

YB = Total annual fringe benefits based on 1979-80 adjusted salary.

If the whole group were to retire without replacement, the total cost savings to UDC would equal the estimated total compensation.

Plan B in Chart A-3 offers an alternative strategy. Granting that all eligible candidates for retirement choose to take advantage of the option, UDC would replace all of them within their respective departments. The temptation to replace the top-salaried employees with junior level staff seemed impractical because of the ideal combination of expertise required by professional accrediting associations to handle courses at various levels. The cost savings implied in this model is the difference between the total compensation estimated for the retirees' group and the replacement group.

For replacement faculty, the formula for estimating the total annual compensation was as follows:

$$TCR = AS + YB$$

Where: TCR = Total replacements' compensation, 1979-80.

AS = Adjusted annual salary for 1979-80 derived from 1977-78 salary schedule.

YB = Total annual fringe benefits[1] based on 1979-80 adjusted salary.

The cost savings for UDC would be estimated by

$$CBS = TCI - TCR$$

Where: CBS = Annual cost savings, 1979-80, Plan B.

TCI = Total annual compensation for incumbent faculty.

TCR = Total annual compensation for replacement faculty.

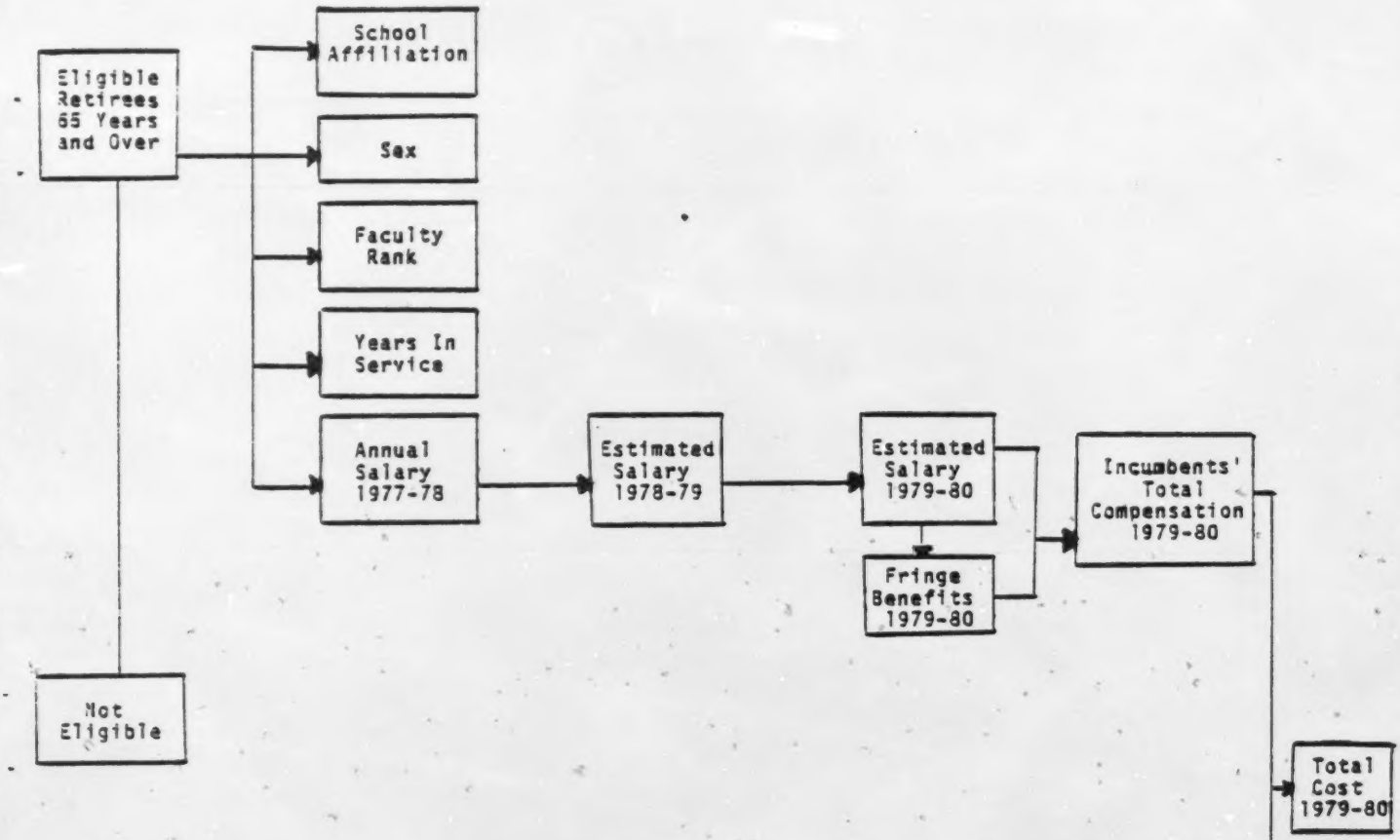
---

[1]Same as the incumbent faculty excluding the accumulated annual leave and sick leave.

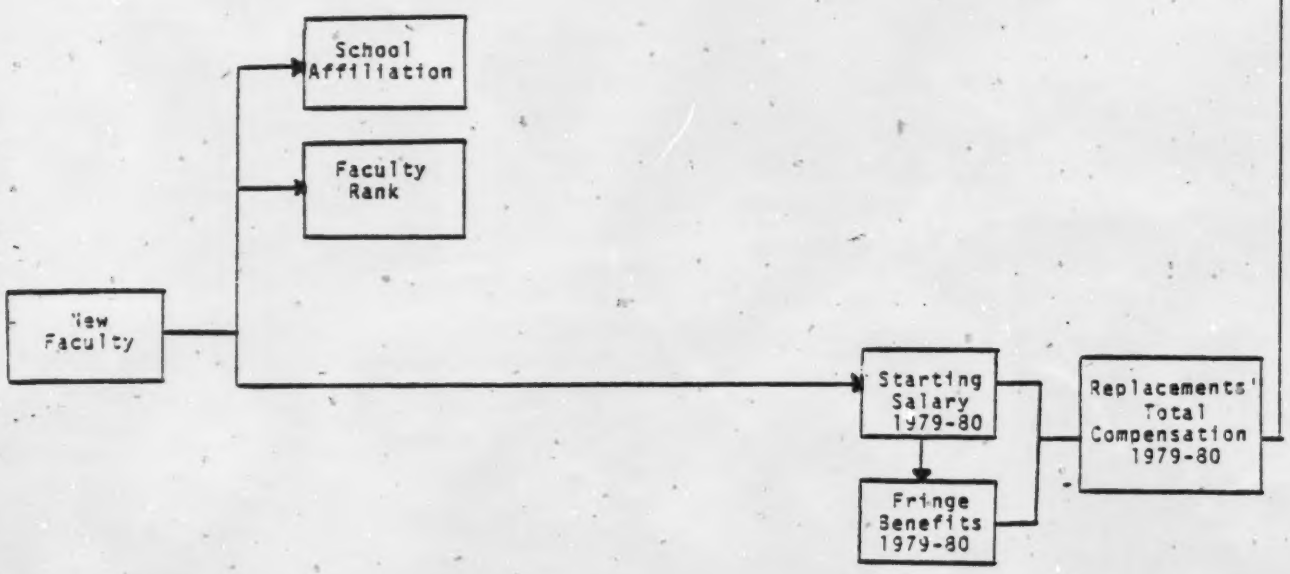
Chart A-3: Estimated Savings if All Retirable Faculty Members Were Replaced, UDC, Fall 1979 - 80

Plan B (Replacement of all Retirable Faculty)

1. Incumbent Faculty



2. Replacement Faculty



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Plan C represents the humane approach of UDC by extending a severance pay commensurate to the length of service[1] and the number of years remaining between normal retirement age 65 and mandatory retirement age 70. Model C, shown as Chart A-4 suggests a supplementary benefit package for employees that have served the earlier institutions at a graduated scale. It utilizes the same institutional contribution rates paid by UDC to TIAA-CREF, based on rank and salary. For employees with at least 20 years of service, UDC would continue the payment of full annuity benefits to TIAA-CREF up to the time the retiree reaches 70 years. This strategy will evade the taxes on lump sum severance pay as well as reduce the annual institutional commitment. Supplemental benefits would be dependent on the rank and annual salary in 1979-80 which will be held constant until age 70. Accordingly, retirees who have rendered 10-19 years of service will be provided with half of the annuities while those with less than 10 years of service will be entitled to a quarter of the benefits.

Cost savings that might be realized from this plan will be the difference between the supplementary benefits paid to all retirees and the estimated total compensation for the new faculty as derived in Plan B. Other variations of this plan would be to simulate how much would be saved if only a portion (66%, 50% or 33%) of the group decide to retire at 65 years of age. For supplementary benefits the following formulas will be used for estimating the total amount for the group in 1979-80:

$$TSB = SBP + SBA + SBI$$

Where: TSB = Total supplementary benefits for retirees.

SBP = For professors and associate professors, supplementary benefits derived by obtaining 15% of 1979-80 annual salary (held constant until age 70).

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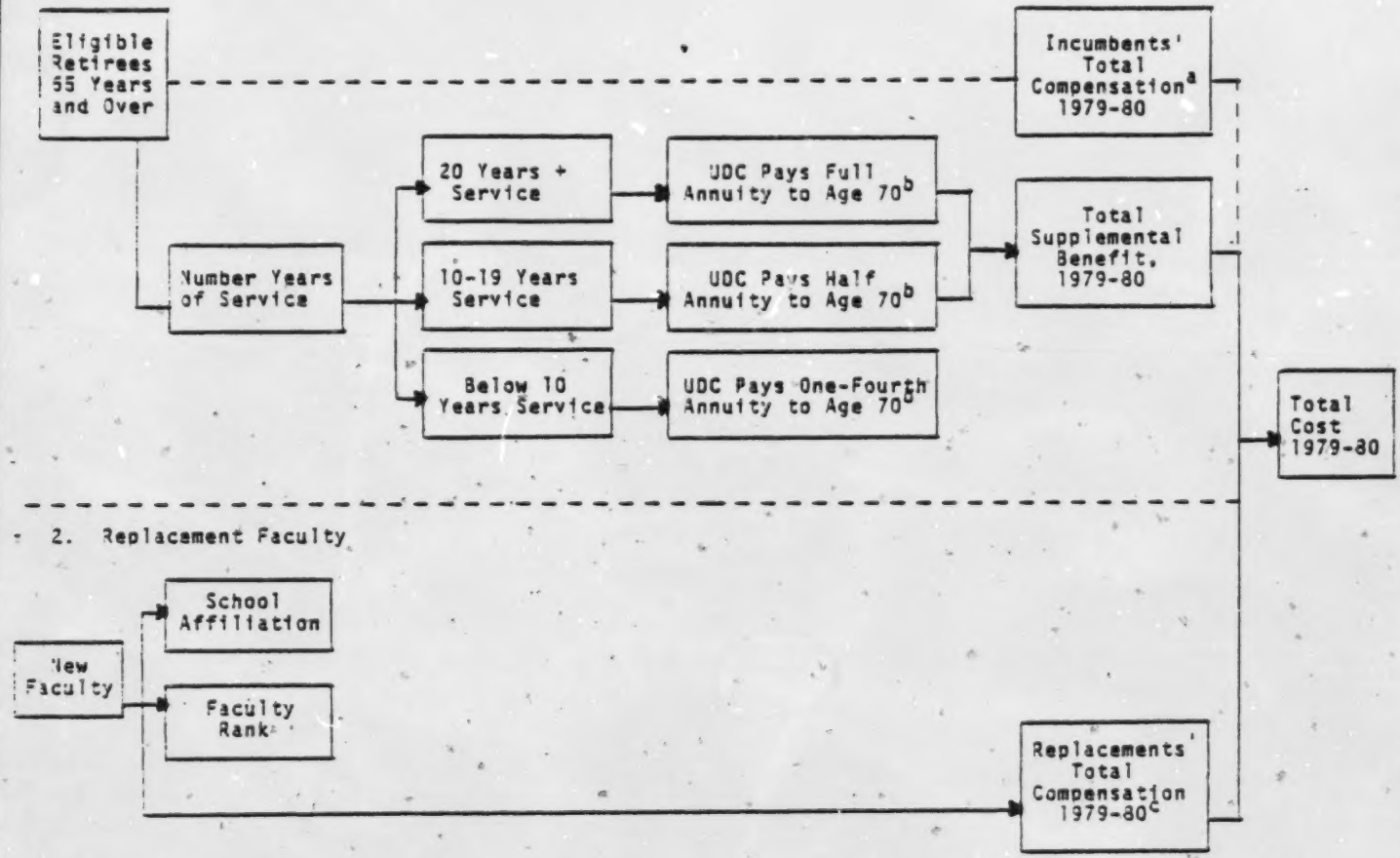
[1]TIAA-CREF, "Provisions for Early Retirement," Bulletin April, 1972, p.4.

Chart A-4: Estimated Savings if an "Early Out" Annuity Benefit Package Were Applied to Replace Retirable Faculty, UDC, Fall 1979-80

Plan C (Early-Out Benefits Based on Years of Service, All Eligibles Replaced)

1. Incumbent Faculty


Eligible Retirees 65 Years and Over
Incumbents' Total Compensation[a] 1979-80
Number Years of Service
20 Years + Service
10-19 Years Service
Below 10 Years Service
UDC Pays Full Annuity to Age 70[b]
UDC Pays Half Annuity to Age 70[b]
UDC Pays One-Fourth Annuity to Age 70[b]
Total Supplemental Benefit, 1979-80
Total Cost 1979-80

2. Replacement Faculty

[a] If all eligible retirees were to contine working.

[b] Based on 1979-80 annual salary and rank which are kept constant until retirees reach age 70.

[c] Same as Plan B.

OIR/3.16.73

SBA = For assistant professors, supplementary benefits derived by 12 1/2% of 1979-80 annual salary (held constant until age 70).

SBI = For instructors and assistant instructors, supplementary benefits derived by 10% of 1979-80 annual salary (held constant until age 70).

The estimated cost savings from Plan C would be derived with this formula:

CSC = TCI - (TSB + TCR)

Where: CSC = Annual cost savings, 1979-80, Plan C.

TCI = Total annual compensation for incumbent faculty (See Plan A).

TSB = Total supplementary benefits for retirees (see section above).

TCR = Total compensation for replacement faculty (see Plan B).

Plan D utilizes the prior service benefit approach as well as the faculty rank in a slightly different perspective. Chart A-5 exhibits the interaction of the factors predicated. The prior service formulas are estimated for each rank as follows:

a) <u>For professor and associate professors</u>,

PSB I = [[1% (SSB) + 1.5% (SAE)] YS]/NYD

b) <u>For assistant professors</u>,

PSB II = [[0.5% (SSB) + 1% (SAE)] YS]/NYD

c) <u>For instructors and assistant instructors</u>,

PSB III = [[0.5% (SSB) + 0.5% (SAE)] YS]/NYD

d) <u>For all faculty</u>,

PSB = PSB I + PSB II + PSB III

Where: PSB = Prior service benefit for all faculty.

SSB = Salary within social security earnings base of $17,000.

SAE = Salary above earnings base.

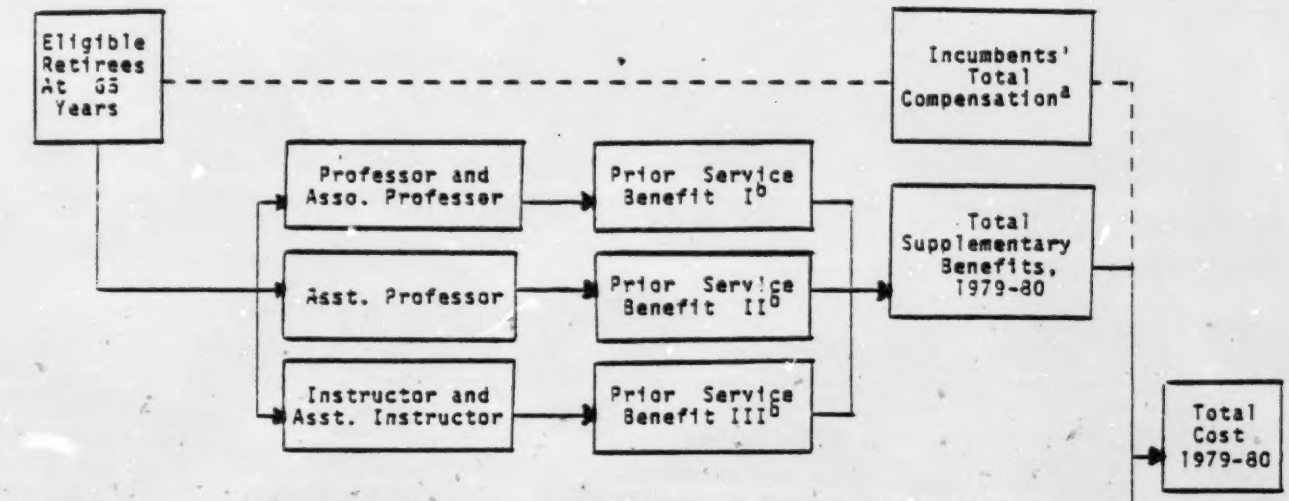
YS = Number of years service (rounded to the nearest half year).

NYD = Number of years difference from age in 1979-80 to 71 years of age.

Chart A-5: Estimated Savings if an "Early Out Step" Rate Benefit Plan Were Provided and All Eligible Faculty Replaced, UDC, Fall 1979-80

Plan D (Early-Out Based on Salary and Prior Service, All Eligibles Replaced)

1. Incumbent Faculty



2. Replacement Faculty

[a] If all eligible retirees were to continue working.

[b] See text on prior service benefit formulae.

[c] See Plan B.

DIR/8.17.78

The cost savings derived with the use of Plan D would be:

CSD = TCI - (PSB + TCR)

Where: CSD = Annual cost savings, 1979-80, Plan D.

TCI = Total annual compensation for incumbent faculty (see Plan A).

PSB = Prior service benefit for total faculty (see section above).

TCR = Total compensation for replacement faculty (see Plan B).

Other variations for Plan D would be to simulate the cost effects on the budget if only a segment of the candidates for retirement (66%, 50% or 33% of them) choose to take advantage of the "early-out" plan.

The same formulas presented under each plan were employed for administrative and GS-employees.

Part II - Administrative Staff: Inasmuch as UDC is expected to implement the 1978 ADEA provisions for its non-teaching staff no later than January 1, 1979, a simple test had to be devised to vouch whether or not UDC can legally encourage eligible staff to retire as early as 65. The estimated aggregate amount of nonforfeitable retirement benefits paid by UDC to TIAA-CREF for each employee, over the past two years, as required by law, should not be less than at least $27,000. OIR's estimate of the total amount was based on the monthly premiums contributed by UDC during the past year, 1977-78. Recognizing that all five eligibles have served UDC from at least 3-11 years, and that the majority are at the end of their salary levels, it was assumed that their base salary in 1975-76 would only be less by 5.5%[1] when compared to 1976-77. The inquiry pointed out that only one of the eligibles could not be encouraged to retire based on the $27,000 test base. Hence, this particular employee was not replaced in the simulation models.

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[1]The annual increase granted for an across the board cost of living adjustment for that year.

In addition, all the assumptions postulated in Chart A-1 for incumbent and replacement faculty were applied to the administrative staff.

The formulas adopted for faculty in Plans A through D were likewise applied for parallel levels of responsibility. The equivalent terms for faculty ranks were as follows:

Faculty	Administrative Staff
Professor and Associate Professor	Levels I - VI
Assistant Professor	Levels VII - XI
Instructor and Asst. Instructor	Levels XII - XV

Estimates of 1979-80 salaries and fringe benefits were based on the December 2, 1977 Academic-Administrative Salary Schedule for UDC. Formulas for estimating the 1979 salaries and total compensation for faculty were also used for these personnel.

Part III - General Schedule and Wage Grade Employees: For illustrative purposes and on the basis of age (65-67 years) as well as number of years served at UDC, these four employees are assumed to be eligible for the discontinued service retirement plan with an immediate annuity. The minimum requirements for being classified into the involuntary separation[1] from the Civil Service System are:

1) Attainment of age 50 and completion of 20 years of creditable service or

2) Regardless of age, has completed 25 years of creditable service.

The assumptions stated in Chart A-1 were applied to this set of employees but were only simulated with Plans A and B. These plans were considered sufficient because of the limited number qualifying for retirement as well as the special provisions of the Civil Service System that qualify people for immediate annuity sooner than they expected.

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[1] Cases of involuntary separation are reduction in force, abolition of positions, lack of funds, expiration of term of office, liquidation of an office, inefficiency, separation during probation and displacement. For details see, Subchapter S11, "Discontinued Service Retirement," FPM Supplement 831-1, May 15, 1978.

To preserve the confidential nature of information simulated in the various models, only the median salaries and compensation of the different groups of employees are exhibited in the Appendix.

A word of caution is warranted concerning the limitations of the simplified methodology used in this study. Considering the fact that UDC's personnel system is currently being redeveloped and that this is the first retirement-related research for its staff, the simulation models abstained from reflecting the probable effects of quits, tenure, deaths and demographic characteristics of new employees. No trend data could be obtained from the earlier institutions on these factors except mortality rates which could have been obtained from the Bureau of the Census and Statistics.

Findings

Results of a computerized search of the UDC Personnel File elicited only 36 employees (2.6% of all UDC personnel) who are approaching 65 years and over. When this was extended to include those who will be 60 years and over, 77 people (5.6% of UDC's staff) were grouped in the category. A distribution of staff aged 65 years and over by type of salary schedule alloted to is shown as Table 1. Almost 8 out of 10 employees of retirable age are faculty members.

UDC is not yet expected to observe the ADEA provisions prior to July 1,1982, hence, an effort is being made to encourage all eligible retirees to observe the normal retirement age of 65 years as stipulated

Table 1 - UDC Personnel, Spring 1977-78

Type of Employees Based On Salary Schedule	People 65 Years and Over As of August 1, 1979 #	%	Total UDC Personnel[a]	As % of Total UDC Personnel
Administrators	5	13.9	350	1.4
Faculty	27	75.0	661	4.1
General Schedule	3	8.3	326	0.9
Wage-grade[b]	1	2.8	39	2.6
Total UDC	36	100.0	1376	2.6

[a]Refers to appropriated filled positions only.

[b]Note that only one wage-grade employee was reported to be 65 years of age and over by August 1, 1979.

Source: UDC Personnel Information System, August 10, 1978.

in Board Resolutions of earlier institutions. In 1977, TIAA-CREF reports that 82% of their client institutions identified 65 years as the normal retirement age.[1]

A profile of the retirable faculty group is exhibited in Table 2. The information assembled suggests that the majority are males, reporting the rank of a professor, at the end of their salary grade scale and have served UDC for less than 10 years. It is also noted that most of the retirement candidates are affiliated with the Schools of Physical Science, Business and Education. The median annual salary is estimated to be $30,385 and an annual compensation of $41,667 by Fall 1979-80. The compensation reported seems relatively higher than the $36,127 at comparable institutions of higher learning.[2]

Table 3 displays the cost savings estimated with the use of four different formulas on 27 eligible teaching staff. Projected costs in terms of salary, fringe benefits along with supplementary benefits for incumbent faculty are contrasted with those for new faculty if the retirees were to be displaced as postulated in the simulation models. The cost savings registered was from at least $154,300 if Plan C_2 were applied to as high as $1,049,059 in Plan A.

A similar set of plans were used to simulate the relative impact of the legislation on the budget if the five eligible administrative staff were substituted with a new set of employees. Detailed cost savings are exhibited in Table 4. The amounts varied from as much as $211,073 under Plan A where all eligible staff were assumed to retire without any replacements, to as low as $16,336 under Plan C_2 where only half are retired and replaced.

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[1]TIAA-CREF College and University Retirement Plan Provisions 1977, Table D, page IX.

[2]The Chronicle of Higher Education, "Faculty Compensation," July 17, 1978, page 9.

Table 2 - Selected Characteristics of Incumbent Faculty of Retirable Age, Fall 1979-80

Selected Characteristics	Number	Percent
1. Sex		
Male	18	66.7
Female	9	33.3
Subtotal	27	100.0
2. Rank		
Professor	14	51.9
Associate Professor	2	7.4
Assistant Professor	9	33.3
Instructor	2	7.4
Subtotal	27	100.0
3. Years of Service		
20 Years and Above	3	11.1
10 - 19 Years	9	33.3
Under 10 Years	15	55.6
Subtotal	27	100.0
4. Schools		
Business and Public Management	6	22.2
Education and Human Ecology	6	22.2
Life Sciences	1	3.7
Liberal and Fine Arts	5	18.5
Physical Science, Engineering and Technology	9	33.4
Subtotal	27	100.0
5. Grade/Step Salary		
At end of grade scale	15	55.6
Second to the end of scale	6	22.2
At lower steps of scale	6	22.2
Subtotal	27	100.0

Table 2 - Selected Characteristics of Incumbent Faculty of Retirable Age, Fall 1979-80 (Cont'd)

Selected Characteristics	Number		Percent
6. Age in Years (as of Aug. 1, 1979)			
65	11		40.8
66	4		14.8
67	4		14.8
68	1		3.7
69	2		7.4
70 and Over	5		18.5
Subtotal	27		100.0
7. Annual Salary			
Below $25,000	9		33.3
$25,000 -29,999	4		14.8
30,000 - 34,999	13		48.2
35,000 and Over	1		3.7
Subtotal	27		100.0
Median Salary		$30,385	
8. Annual Compensation			
Below $30,000	9		33.3
$30,000 - 34,999	-		-
35,000 - 39,999	4		14.8
40,000 - 44,999	3		11.1
45,000 and Over	11		40.8
Subtotal	27		100.0
Median Compensation		$41,667	

Source: "UDC List of Full-Time Permanent Employees by Campus, Spring 77-78," Computer Printout dated July 31, 1978.

Table 3 Estimated Cost Savings Simulating Four Plans for "Early-Out" Retirement of Eligible Faculty, UDC, (N=27)

Type of Allocation And Employee Status	Alternative Plans					
	Plan A[a] (1)	Plan B[b] (2)	Plan C_1[b] (3)	Plan C_2[c] (4)	Plan D_1[b] (5)	Plan D_2[c] (6)
I. Incumbent Faculty						
a) Salary	$ 790,836	-	-	389,024	-	389,024
b) Fringe Benefits	258,223	-	-	126,436	-	126,436
c) Total Compensation	1,049,059	(1,049,059)[d]	(1,049,059)[d]	515,460	(1,049,059)[d]	515,460
d) Supplementary Benefits	-	-	35,664	17,278	34,214	9,378
e) Estimated Cost (C-D)	1,049,059	(1,049,059)	(1,013,395)	498,182	(1,014,845)	506,082
II. New Replacement Faculty						
f) Salary	-	548,500	548,500	280,501	548,500	280,501
g) Fringe Benefits	-	124,450	124,450	63,381	124,450	63,381
h) Total Compensation (Estimated Actual Cost)	-	672,950	672,950	343,882	672,950	343,882
III. Estimated Cost Savings(e-h)	$1,049,059	$ 376,109	$ 340,445	$154,300	$ 341,895	$162,200

[a]All retirees aged 65-70 years choose to stay until age 70 years.

[b]All retirees aged 65-70 years choose to leave by Fall 1979-80.

[c]Only 50% aged 65-70 years choose to leave by Fall 1979-80.

[d]Estimated budgeted cost.

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Table 4 Estimated Cost Savings Applying Four Plans for "Early-Out" Retirement of Eligible Administrative Staff, UDC, 1979-8
(N=5)

Type of Allocation And Employee Status	Alternative Plans					
	Plan A[a] (1)	Plan B[b] (2)	Plan C_1[b] (3)	Plan C_2[c] (4)	Plan D_1[b] (5)	Plan D_2[c] (6)
I. Incumbent Administrative Staff:						
a) Salary	$163,618	-	-	89,946	-	89,946
b) Fringe Benefits	47,455	-	-	27,868	-	27,868
c) Total Compensation	211,073	(211,073)[d]	(211,073)[d]	117,814	(211,073)[d]	117,814
d) Supplementary benefits	-	-	7,587	3,388	3,017	1,268
e) Estimated Cost (c-d)	211,073	(211,073)	(203,486)	114,426	(208,056)	116,546
II. New Replacement Administrative Staff:						
f) Salary	-	139,259	139,259	79,495	139,259	79,495
g) Fringe Benefits	-	30,523	30,523	18,595	30,523	18,595
h) Total Compensation (Estimated Actual Cost)	-	169,782	169,782	98,090	169,782	98,090
III. Estimated Cost Savings (e-h)	$211,073	$ 41,291	$ 33,704	$ 16,336	$ 38,274	$ 18,456

[a]All retirees aged 65-70 years choose to stay until age 70 years.

[b]All retirees aged 65-70 years choose to leave by Fall 1979-80.

[c]Only 50% of the retirees choose to leave.

[d]Estimated budgeted cost.

[e]One of the 5 incumbents cannot be encouraged to retire because of the $27,000 test base prescribed by ADEA.

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The contrast between the cost savings from the two models simulated on the GS-employees is underscored in Table 5. The higher value is $75,544 with the use of Plan A where all eligibles are retired but not replaced while the lower $16,086 is projected when all are supplanted with new staff.

For purposes of highlighting the features of each plan, Table 6 and Chart B-1 present the aggregate savings projected through the alternative plans on the three sets of employees. Table 6, Column (4) indicates a total savings of almost one and a half million dollars from retiring 36 people. The lowest figure of about 187 thousand dollars by displacing only 18 staff members is likewise suggested.

Percentage-wise the cost savings would only be about four percent of the total appropriation for personnel which would not be much (see Table 6, Column (5). Within the context of financial retrenchment in higher education and the repercussions of Proposition 13, a reserve supply of almost 1.5 million dollars would be quite significant in alleviating UDC's financial problems. As a matter of fact, retiring the older group might provide a temporary solution to the pressure from the U.S. Congress on the reduction of labor force among District agencies. The eligible group of 36 staff members exceeds the 29 positions (by about 20%), proposed for elimination as indicated in the UDC 1979-80 budget.[1]

Furthermore, the excess funds might be used to offset the loss of the buying power of the shrinking dollar due to inflation. The unexpected relief seems particularly interesting in light of the practice where UDC is expected to absorb additional expenditures emanating from inflationary causes.

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[1]UDC Proposed Budget, FY 1979-80 (Council Submission) as quoted by Mr. Thomas Waters, August 18, 1978.

Table 5 Estimated Cost Savings Applying Two Plans for Retiring Eligible General Schedule and Wage-Grade Employees, UDC, 1979 - 80

(N=4)

	Type of Allocation And Employee Status	Plan A[a] (1)	Plan B[b] (2)
I.	Incumbent GS-Employee		
	a) Salary	$62,581	-
	b) Fringe Benefits	12,963	-
	c) Total Compensation	75,544	-
	d) Supplementary benefits	-	-
	e) Estimated Cost (c-d)	75,544	(75,544)[c]
II.	New Replacement GS-Employee		
	b) Salary	-	50,138
	g) Fringe Benefits	-	9,320
	h) Total Compensation (Estimated actual cost)	-	59,458
III.	Estimated Cost Savings (e-h)	75,544	16,086

[a] All retirees aged 65-70 years choose to stay until age 70 years.

[b] All retirees choose to leave by Fall 1979-80.

[c] Estimated budget cost.

Table 6 Summary Data on Estimated Cost Savings Under Various Plans For Three Sets of Employees, UDC, 1979-80 (N=36)

Alternative Plans	Cost Savings				
	Faculty (1)	Administrative (2) Staff	General[a] (3) Schedule	Total (4) Savings	Savings[b] as % of (5) UDC Proposed Budget 1979-80
Plan A	$1,049,059	$211,073	$75,544	$1,335,676	3.8
Plan B	376,109	41,291	16,086[c]	433,486	1.2
Plan C_1	340,445	33,704	16,086	390,235	1.1
Plan C_2	154,300	16,336	16,086	186,722	0.5
Plan D_1	341,895	38,274	16,086	396,255	1.1
Plan D_2	$ 162,200	$ 18,456	$16,086	$ 196,742	0.6

[a] Includes one wage-grade employee.

[b] The amount proposed for full-time appropriated positions (salaries and benefits) is $34,697,700.

[c] It is assumed that all eligible retirees will be replaced by 1979-80.

Source: Mayor's Submission, UDC 1980 Proposed Budget, July 1978, Object Class and Employment Summary, p. 16.

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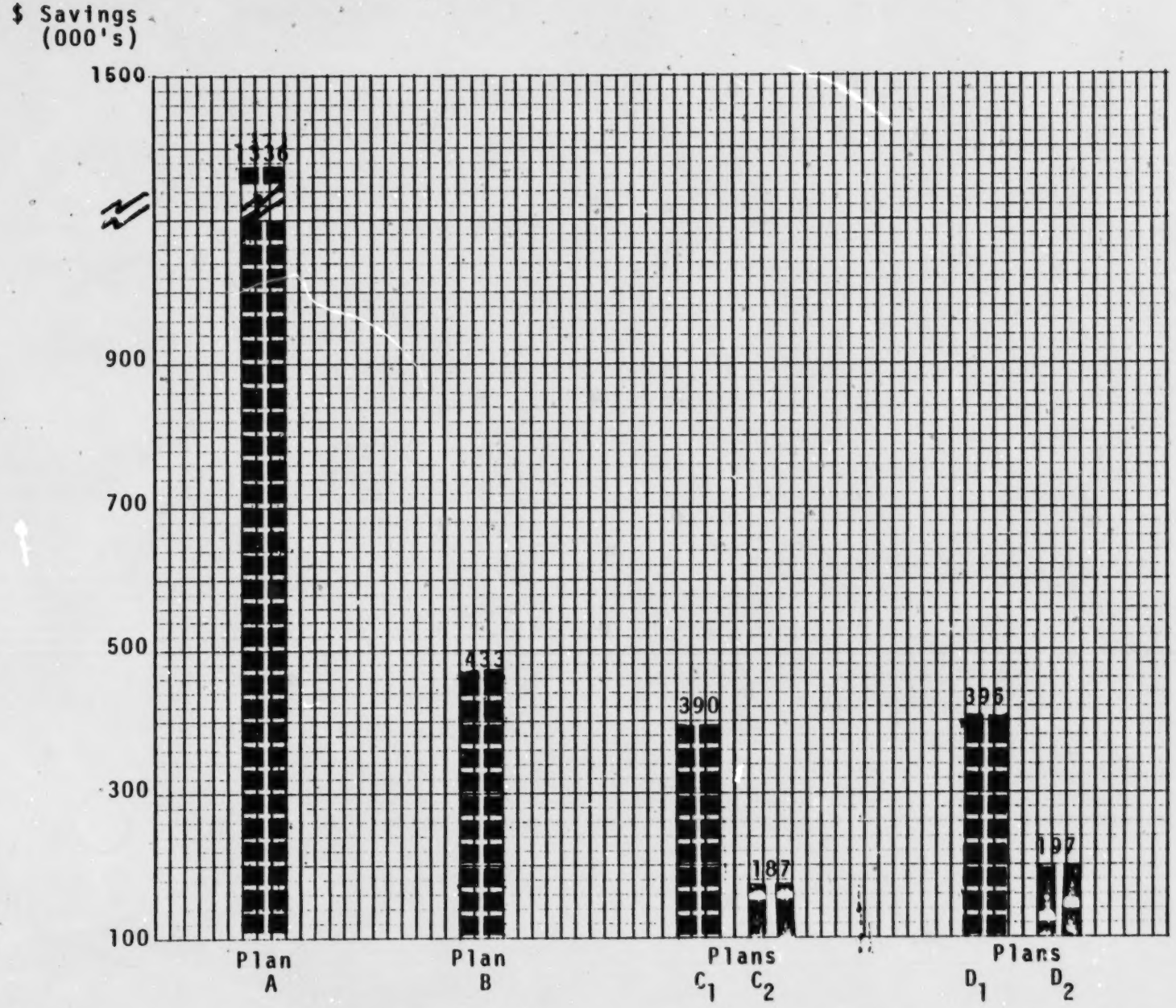
Chart B-1: Estimating Cost Savings Utilizing Alternative Plans of Retiring All Types of Eligible Employees, UDC, 1979-80



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On the other hand, it appears that the more humane approach of providing supplementary benefits relative to the years of service (Plans C and D) as compared to the no incentive techniques (Plans A and B) should be implemented. The strategy with supplementary benefits seems particularly promising because of the absence of programs that would assist UDC retirees in making a healthy transition to retirement years. Programs[1] currently operated by institutions of higher learning include a pre-retirement counseling program; a faculty social club that extends services such as athletics, cafeteria and cultural events to retirees; as well as an ad hoc program that utilizes the expertise of retirees on intermittent basis for counseling students, community services or as consultants in research.

Significant factors that may have to be pointed out to retirees are the medicare coverage and the reduced or forfeited Social Security payments due to continuing employment at age 65. It is expected that such monetary benefits and other reasons such as job-related pressures, poor health, increased leisure time activities and family-related motives might induce early retirement among UDC staff as experienced in other schools. Recent studies have indicated that more than 50% of Social Security participants avail themselves of old-age benefits prior to age 65. Among TIAA-CREF members, about a third claimed annuities before age 65 in 1976. Patton's longitudinal study at the University of California reported 40% of the male faculty and 72% of the female faculty opted for early retirement.[2]

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[1]James Mulanaphy, "Retirement in Higher Education, 1978," TIAA-CREF, New York, Table 3, pages 35-37.

[2]Donald S. Williard "A Time to Retire: Raising the Mandatory Retirement Age", National Association of College and University Business Officers, November 1977 reprint.

Conclusions

The relative impact of the new legislation extending retirement age to 70 years appears to be significant in planning UDC's annual financial needs. Accordingly, policies related to replacement of retirees; teaching skills necessary to maintain quality programs; and assessing UDC's financial capability to fund an "early out" retirement package should be reconsidered soon.

In the interest of planning UDC's budgetary needs and assisting those who have rendered a career of service to its predecessor colleges, the following recommendations seem warranted.

It is suggested that:

1) The factor of replacement has to be decided upon since it is the critical factor that will affect the budget and the quality of personnel.
   a) If UDC were bent to reduce its staff through attrition, then Plan A, which suggests no replacement of retirees and a savings of almost one and a half million dollars, should be implemented. This is especially helpful at this time, since UDC is not yet expected to observe the ADEA provisions prior to July 1982.
   b) If retirees were to be replaced in order to utilize new skills and talents of recent graduates, then, Plan D should be adopted where length of service is credited accordingly with only 197 thousand dollars saved. Tax-deferred annuity benefits should correspond to some of the supplementary benefits currently offered by other colleges and universities to induce "early out".
2) In view of the long-range institutional commitment of financing any plan, the line of action should be to establish

a temporary"early out" retirement program, to be used at the option of the institution when it is financially feasible.

3) Technical services of TIAA-CREF staff members should be employed (since 73% of UDC employees are participants of this plan) to study the costs and benefit implications attendant to various methods of rewarding prior services while an "early out" policy is being evolved.

4) Factors such as probabilities of quits, tenure, deaths, and sex should be incorporated in formulas for "early out" as these data become available on UDC staff in the near future.

5) A pre-retirement program should be organized within the UDC Personnel Office to counsel people on all aspects of retirement, preferably as early as age 50.

APPENDICES

APPENDIX

List of Yearly Fringe Benefits Paid by D.C. Government for each Employee

Fringe Benefits	Annual Amounts Paid
1. Medical/Dental[a]	$ 694.00
2. Disability Protection (For people under 65 years only)	7.00
3. Social Security	
a) Income of $17,000 and Over	1,071.00
b) Income less than $17,000	(6.05% of annual salary)
4. Retirement	
a) Prof., Assoc. Prof. and Adm. Levels I thru VI	15%
b) Asst. Prof. and Adm. Levels VII thru XI	12.5%
c) Inst., Asst., Inst. and Adm. Levels XII and Below	10.0%
GS Employees Contribute 7% of annual salary	7.0%
5. Acculmulated Annual Leave: Administrative & GS employees only Paid 30 days = 1.5 months	$\frac{1.5}{12}$ = 12.5% (annual salary)
6. Lump sum payment for sick leave (Van Ness only) 12 days with pay	$\frac{12}{22} \times \frac{1}{264}$ = 0.20% (annual salary)

[a] Assumed that retirees would be subscribing to the family plan with high option, since this is the most popular.

Table A

Comparison of Estimated Salaries and Compensation Between Incumbent and Replacement Staff, UDC, 1979 - 80

Employee Classification	Incumbent	Replacement
1. Faculty		
Median Salary	$30,385	$20,769
Median Compensation	41,667	25,357
2. Administrative Staff		
Median Salary	34,260	28,737
Median Compensation	41,164	34,812
3. GS- employees		
Median Salary	16,310	12,709
Median Compensation	19,698	15,062

Source: Based on Tables 3 - 5

Chart 1 - Retirement Plans of Predecessor Institutions[a] of UDC, 1977-78

Type of Retirement System	Institution	Number Branches	Retirement Fund		Mandatory Retirement Age		Normal Retirement Age		"Early Out" Policies		
			%Employee Pays	% University Pays*	Faculty	Non-Academic Staff	Faculty	Non-Academic Staff	Age	Service	Benefits
TIAA-CREF	Federal City College			15.0% 12.5% 10.0%			65	65		None	
TIAA-CREF	Dist. of Col. Teachers Col.			15.0% 12.5% 10.0%			65	65		None	
TIAA-CREF	Washington Technical Inst.			15.0% 12.5% 10.0%			65	651		None	

[a]Policies, Washington Technical Institute by the Board of Trustees, WTI, November 1968

*Percentage paid depending upon administrative or faculty rank.

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Chart 2 - Retirement Plans of Universities - The Washington Metropolitan Area, 1978

Type of Retirement System	Institution	Number Branches	Retirement Fund		Mandatory Retirement Age		Normal Retirement Age		"Early Out" Policies		
			%Employee Pays	% University Pays	Faculty	Non-Academic Staff	Faculty	Non-Academic Staff	Age	Service	Benefits
1. TIAA-CREF	American University[a]		5.0%	10.0%	-	-	70	70	None		
	Catholic University[b]		Employer Matches dollar for dollar.		65	65 - 70 yearly basis with physical.	-	-	62 less benefits received.		
	Georgetown University[d]		Option of deferment from Taxation.		65	65	-	-	55 with at least 10 years of continuous service. The formula used is given below*		
	George Washington University**		1.0% 2.0% 3.0% 4.0% or 5.0%	2.0% 4.0% 6.0% 8.0% or 10.0%	70	70	65	65	None		
	Howard University[c]		5.0%	10.0%	June 30th following 65th birthday.		65	65	55 - Formula* = 2% of final average salary x years of credited service ½ of primary soc. sec. benefit at age 65.		
	Maryland University		5.0%	At least 5%	-	-	60	60	None		

Chart 2 - Retirement Plans of Universities - The Washington Metropolitan Area, 1978 (Con.t'd)

Type of Retirement System	Institution	Number Branches	Retirement Fund		Mandatory Retirement Age		Normal Retirement Age		"Early-Out" Policies		
			% Employee Pays	% University Pays	Faculty	Non-Academic Staff	Faculty	Non-Academic Staff	Age	Service	Benefits
II. State Retirement System (Va.)	George Mason University[e]		5.0%	5.0%	70 12 month faculty administrators must step down at age 65 but can remain at discretion of superiors.	70	65 Both faculty and staff may continue with permission.	65	55 with reduced annuities to = ½ of 1% per month for 1st 5 years then 4/5 of 1% following 5 years.		

Sources:

Educational Research Division TIAA-CREF Manual, TIAA-CREF College and University Retirement Plan Provisions, 1977.

Telephone contacts with individual institutions:

[a]Dr. Debarco - July 19, 1978

[b]Jerry Milligan - August 7, 1978

[c]Mr. Martin - August 7, 1978

[d]Insurance Officer - August 7, 1978

[e]Mr. Hilderbrand - August 7, 1978

*As elected by individual

**Howard University formula similar to Georgetown University.

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Chart 3 - Retirement Plans of 14 Selected Urban Institutions

Type of Retirement System	Institution	Number Branches	Retirement Fund		Mandatory Retirement Age		Normal Retirement Age		"Early Out" Policies		
			%Employee Pays	% University Pays	Faculty	Non-Academic Staff	Faculty	Non-Academic Staff	Age	Service	Benefits
I. TIAA-CREF	University of Michigan (Flint Campus)	3	5%	10%	-	-	-	-	55	30	Full
									56	25	"
									57	20	"
									58	15	"
									59	15	"
									60	5	"
	Worcester State College	-	3%	3%	70	65	65	65	55	20	Full
									45	20	Limited
									55	5	"
									55	5	"
	Rutgers University	10	5%	6.03%	70	70	65	60-70	55	25	Full
II. State Retirement System	University of Massachusetts (Boston Campus)	3	5%, 7%	-	70	68	65	65	55	20	Full
									55	20	Limited
	Indiana University (Fort Wayne)	8	0[a]	100%	70	65	-	-	55	25	Full
			3[a]						60	20	"
									62	15	"
									65	10	"
	University of Wisconsin (Green Bay)	27	1	9	-	-	65	70	55	-	Reduced[b]

[a] 0=Faculty's contribution; 3%=non-academic staff's contribution.

[b] Faculty reduced 11% yearly.

Chart 3 - Retirement Plans of 14 Selected Urban Institutions (Con't.d)

Type of Retirement System	Institution	Number Branches	Retirement Fund		Mandatory Retirement Age		Normal Retirement Age		"Early Out" Policies		
			%Employee Pays	% University Pays	Faculty	Non-Academic Staff	Faculty	Non-Academic Staff	Age	Service	Benefits
II. State Retirement System	University of Minnesota (Main Campus)	6	2½%[a] 4%[b]	2½% 6%	-	-	65	65	62-64	30	Full
	Sangamon State University	-	-	-	68	68	-	-	None		
	Cleveland State University	-	8.5	-	-	-	60-65	60-65	55	5	Limited
	Northeastern Illinois Univ.	-	-	-	-	-	65	65	None		
	Southwest Missouri State College	-	-	-	-	-	65	65	50	30	Full
									60[c]	15[c]	Full
									55[c]	15[c]	Reduced
	Chicago State University	-	-	-	-	-	65	65	None		

[a] 2½% = Amount the faculty pay, the University contributes 2½% of the 1st thousand dollars.

[b] 4% = proportion of gross salary that non-academic staff pay.

[c] "Early-Out" Policy designed for non-academic staff.

Chart 3 - Retirement Plans of 14 Selected Urban Institutions (Con't.d)

Type of Retirement System	Institution	Number Branches	Retirement Fund		Mandatory Retirement Age		Normal Retirement Age		"Early Out" Policies		
			%Employee Pays	% University Pays	Faculty	Non-Academic Staff	Faculty	Non-Academic Staff	Age	Service	Benefits
III. TIAA-CREF and State Retirement System	City University of New York (CUNY) Bernard M. Baruch College)	7	1½% [a] 3% [b]	10½ N.A.	70	65	65	65	55 50	20[c] 20[d]	Full Full
	State University of New York (SUNY)	3.0%	3%	13% & up	70	70	62-70	62-70	55-65		

[a] [b] Some faculty are members of TIAA-CREF; others and non-academic staff are members of the New York City retirement system. Faculty who are members of TIAA-CREF pay 1½% of their annual salaries into the system. Faculty and non-academic staff who are members of the New York City pay 3% of their annual salaries into that system.

[c] An employee is eligible to retire after 20 years of service, but he must pay into the system for 25 years.

[d] An employee may retire at age 50, but his annuity must be deferred for 5 years.

[e] Benefits depends upon the "early-out" plan selected by the employee.

Sources: TIAA-CREF College and University Retirement Plan Provisions Manual - 1977

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